

**STATE OF ILLINOIS**

**ILLINOIS COMMERCE COMMISSION**

Illinois Commerce Commission	)	
on It's own Motion	)	
	)	Docket No. 03-0703
Northern Illinois Gas Company d/b/a	)	
Nicor Gas Company	)	
	)	
Reconciliation of Revenues Collected	)	
under Gas Adjustment Charges with	)	
Actual Costs Prudently Incurred	)	

Direct Testimony of

**BOB O. BUCKLES**

Coordinator Rate Administration, Economics and Rates

On Behalf of  
Northern Illinois Gas Company  
d/b/a Nicor Gas Company

April 1, 2004

1   **I.       INTRODUCTION**

2   **Q.       Please state your name and business address.**

3   A.       Bob O. Buckles, 1844 Ferry Road, Naperville, Illinois 60563.

4   **Q.       By whom are you employed?**

5   A.       Northern Illinois Gas Company d/b/a Nicor Gas Company (“Nicor Gas” or “Company”).

6   **Q.       What position do you hold with Nicor Gas?**

7   A.       I am Coordinator Rate Administration, Economics and Rates.

8   **Q.       Please summarize your educational background and your experience in the public**  
9       **utility business.**

10   A.       I hold the degree of Bachelor of Science, majoring in Energy Resource Management  
11           from Eastern Illinois University. I have been employed by Nicor Gas since 1989. From  
12           1989 until 2003, I have held positions in Commercial and Industrial Sales, Energy  
13           Management Services, Rates, Asset Planning and Development and Supply Operations. I  
14           assumed my present responsibilities in October, 2003.

15   **Q.       Would you please describe your present job responsibilities?**

16   A.       Yes, my present job responsibilities are primarily preparing and filing documents with  
17           the Illinois Commerce Commission (the “Commission”) and reviewing Company  
18           activities as they pertain to compliance with Company tariffs and the Illinois  
19           Administrative Code.

20   **II.       SUMMARY OF TESTIMONY**

21   **Q.       What is the purpose of your testimony in this proceeding?**

A. The purpose of my testimony in this case is to explain Nicor Gas' reconciliation of Gas Supply Cost ("GSC") revenues collected with its actual cost of gas distributed, to the extent that such costs are recoverable, as recorded on the books of the Company for the 12 months ended December 31, 2003. My testimony and exhibits are in response to the Commission's Order Commencing Reconciliation Proceedings entered November 12, 2003, in Docket No. 03-0703.

**Q. Was notice given to the public relative to the filing of the testimony and exhibits in this docket?**

A. Yes. Pursuant to the requirements set forth in the Commission's Order, and in accordance with the requirements of 83 Illinois Administrative Code Part 255, we have posted a printed "Public Notice" card with respect to this case in the business offices of the Company, and a similar public notice was published in newspapers of general circulation in Nicor Gas' service territory. A copy of the printed card and verifiable support of publication will be presented during the hearings in this proceeding. In addition, copies of Nicor Gas' testimony and exhibits are on file and available for public inspection in each of the Company's business offices.

**Q. Is any further purpose served by your testimony?**

A. No.

### **III. DESCRIPTION OF APPLICABLE TARIFFS**

#### **A. RIDER 6, GAS SUPPLY COST ("GSC")**

**Q. Please generally describe Nicor Gas' Rider 6, Gas Supply Cost.**

43 A. Rider 6 prescribes the method of computing Nicor Gas' end-user charges, or rates, for the  
44 recovery of the Company's Cost of Gas Distributed ("GSC charges"). In particular, the  
45 GSC charges developed under Rider 6 are designed to recover the costs the Company  
46 incurs for quantities of gas the Company purchases, transports, stores and sells for the  
47 purpose of serving its end-user customers. The purpose and intent of Rider 6 is to  
48 promptly pass along to customers, through the GSC charges developed under the Rider,  
49 Nicor Gas' net gas supply cost, without markup or profit.

50 **Q. Does Rider 6 comply with the 83 Ill. Adm. Code Section 525 Purchased Gas**  
51 **Adjustment Clause requirements?**

52 A. Yes. The Commission approved the Company's Rider 6 as compliant with the  
53 Commission's Purchased Gas Adjustment Clause requirements on October 3, 1995 in  
54 Docket No. 94-0403.

55 **Q. Please describe in more detail the gas costs that are recoverable through Rider 6.**

56 A. The costs incurred by the Company and recovered through Rider 6 are: (1) gas costs  
57 based on volumes of gas purchased from suppliers, generally referred to as Commodity  
58 Gas Costs ("CGC"); and (2) gas cost other than those defined as commodity related,  
59 generally referred to as Non-Commodity Gas Costs ("NCGC"). NCGC include costs  
60 incurred from demand charges as well as charges for transportation and storage.

61 **Q. Please describe the charges used to recover Nicor Gas' costs through Rider 6.**

62 A. Attached to my testimony as Attachment BOB-1 is a list of Rider 6 charges along with  
63 corresponding descriptions of what type of costs each charge recovers and the customer  
64 classes on which each charge is assessed. As seen in Attachment BOB-1, four gas

charges are employed primarily under Rider 6: the Commodity Gas Cost charge (“CGC charge”), the Non-Commodity Gas charge (“NCGC charge”), the Demand Gas Cost charge (“DGC charge”) and the Gas Cost charge (“GC charge”).

**Q. Please describe the CGC charge.**

A. The CGC charge reflects Nicor Gas’ incurred commodity costs. It is applied to all therms of Company-supplied gas.

**Q. Please describe the NCGC charge.**

A. The NCGC charge recovers all of the Company’s non-commodity costs except those recovered through the DGC charge.

**Q. What does the DGC charge recover?**

A. The DGC charge is applicable as a back-up charge to customers on Nicor Gas’ system that have elected to transport their own gas supplies, but wish to maintain the availability of Company-supplied gas. It is also applied to customers receiving sales service under either Rate 6 or Rate 7.

**Q. Please describe the GC charge.**

A. The GC charge is the sum of the CGC charge and the NCGC charge. It applies to most sales service rate other than Rate 6 or Rate 7.

**Q. Is there anything further you would like to explain with regard to how these charges are applied?**

A. Yes. While I described generally how each charge is assessed, specific application of these charges varies depending on a customer’s rate and elected level of backup service.

86 These charges may also apply at the calculated level, such as the CGC and the NCGC, or  
87 at a percentage of the calculated level, such as the DGC. In addition, charges may apply  
88 to gas supplied by Nicor Gas, customer-owned use, total throughput or a percentage of  
89 the customer's Maximum Daily Contract Quantity. In addition, since August 15, 1977,  
90 authorized use, requested authorized use and unauthorized use therms sold to  
91 transportation customers are priced at the higher of Nicor Gas' currently effective GC  
92 charge or the Market Price, which is defined in the Company's Terms and Conditions as  
93 the index price for deliveries of gas to the Chicago City Gate as published in *Gas Daily*.

94 **Q. Are there any other charges employed under Rider 6 besides these four primary**  
95 **charges you have discussed?**

96 A. Yes. There is a fifth charge called the Aggregator Balance Service Charge ("ABSC  
97 charge") which is a non-commodity related charge applied to customers participating in  
98 Nicor Gas' Customer Select Pilot Program.

99 **Q. Could you explain the ABSC charge in more detail?**

100 A. Yes. In 1998, pursuant to Rider 15, the Company began a customer choice pilot program  
101 call Customer Select. Under the provisions of the pilot program, customers are able to  
102 choose gas suppliers other than Nicor Gas. The program allows participating suppliers to  
103 aggregate deliveries made on behalf of participating customers, in compliance with Rider  
104 16, Supplier Aggregation Service. The ABSC charge is a non-commodity charge applied  
105 on a per therm basis to all deliveries made by the Company to the facilities of customers  
106 participating in the pilot program. Under Rider 16, suppliers are responsible for  
107 providing 32% of the group's maximum daily usage. The ABSC charge, which is billed

to suppliers, represents the recovery of non-commodity costs for the remaining portion of the group's maximum daily use provided by the Company.

**Q Are these ABSC costs recovered exclusively through Rider 6?**

A. Yes. Nicor Gas recovers these costs from the supplier aggregators under the terms of Rider 6. The ABSC charge is applied to deliveries to customers participating in the Customer Select program and billed to the supplier aggregators. Revenue arising from application of the ABSC charge is credited to the Company's non-commodity related gas costs, thereby reducing the NCGC charge.

**Q. What procedure does the Company follow to update its Rider 6 charges?**

A. In accordance with the provisions of Rider 6, relating to charges in the adjustment, each month when the GSC charges are revised, Nicor Gas submits to the Commission for verification a sheet supplemental to the Company's rate schedule, specifying the revised amount of the adjustment, along with a statement of details and data showing Nicor Gas' calculations. The filings are mailed on or before the twentieth (20<sup>th</sup>) day of the month prior to the effective month in which the new Rider 6 charges affect billing to the Company's customers.

**Q. Has Nicor Gas filed monthly purchased gas adjustment calculations for 2003 with the Commission?**

A. Yes.

**Q. How are changes in Nicor Gas' Rider 6 charges applied in billing the Company's customers?**

129 A. Changes in Rider 6 charges become effective on the first day of a calendar month.  
130 However, as a practical matter, Nicor Gas bills all customers on the basis of reading day  
131 cycles that cover various monthly time periods. Therefore, the Company prorates the  
132 effective amounts of the Rider 6 adjustment according to the number of days that each  
133 charge is in effect during each customer's billing period. The prorated level of Rider 6  
134 charges is shown on the customer's bill.

135 **Q. Please describe Nicor Gas' proration procedure.**

136 A. For each customer, the meter reading date is the controlling factor. If, for example, a  
137 customer's meter is read on January 15th, and had previously been read on December 16,  
138 Nicor Gas assumes that 16/30 of the usage was subject to the Rider 6 charges effective in  
139 December and 14/30 of the usage was subject to the charges during January. This system  
140 of prorating charges has been used by the Company for many years and is embodied in  
141 the revenue calculations reflected in the Attachments to this testimony.

142 **Q. Are Nicor Gas' Rider 6 charges updated through any other process?**

143 A. Yes. Rider 6 provides for an annual reconciliation, which is the purpose of this  
144 proceeding.

145 **Q. What occurs during the reconciliation process?**

146 A. Generally speaking, as noted above, the revenue the Company recovered under its Rider  
147 6 charges are compared with the Company's actual Cost of Gas Distributed for the  
148 preceding year. If Nicor Gas' Rider 6 charges recovered a different amount of revenue  
149 than the Company's actual Cost of Gas Distributed, then the Rider 6 charges are set at the



level such that the difference is either returned to or collected from customers, depending on whether there was an over- or under-recovery, over the course of the following year.

**Q. Is each cost category reconciled?**

A. Yes. Pursuant to tariffs approved in Docket No. 95-0219 and filed in compliance with Docket No. 94-0403, revenues recovered under the CGC charge are reconciled with recoverable CGC; and revenues recovered under the DGC charge and NCGC charge are reconciled with recoverable NCGC.

**Q. Does proration of the Rider 6 charges complicate a reconciliation of recovered revenues with allowable recoverable gas costs?**

A. No. It is only the total amount of revenues recovered through each Rider 6 charge over the preceding year that is relevant for performing the annual reconciliation.

**Q. Is the cost of gas used by the Company reflected in the amount to be recovered through the Company's Rider 6 reconciliation?**

A. No. Such costs are not recoverable under Rider 6.

**B. RIDER 6, GSC**

**Q. Was an annual reconciliation statement for 2003 filed in accordance with Rider 6?**

A. Yes. Nicor Gas' annual statement for the year 2003 is being filed simultaneously with this testimony on April 1, 2004 and is attached hereto as Attachment BOB-2.

**Q. Please briefly describe the items contained within the filing.**

169 A. The filing consists of eleven (11) pages, the first page of which is a transmittal letter.  
170 The next ten (10) pages, or through page 11, represent the Company's annual  
171 reconciliation for 2003.

172 **Q. What is contained within the portion of the Company's filing that represents the**  
173 **reconciliation for the year 2003?**

174 A. As noted, the first page is the transmittal letter. The second page is an Independent  
175 Accountants Report issued by Deloitte and Touche for the portion of the filing that  
176 represents the year 2003 reconciliation. The third page is a summary calculation of the  
177 reconciliation for the year 2003. Pages four through six (4-6) contain a detailed  
178 explanation of the basis for the summary calculation on page three (3). The seventh and  
179 eighth pages are detailed reconciliations of the CGC and NCGC, respectively  
180 ("Reconciliation Balances"). The ninth and tenth pages summarize the information  
181 included in the Company's monthly PGA filings for CGC and NCGC, respectively  
182 ("PGA Reconciliations"). The eleventh and final page is the Verification of Mr. George  
183 Behrens.

184 **Q. Would you please explain the Summary Reconciliation in more detail?**

185 A. Yes. This statement compares the total revenues recorded under the various charges of  
186 the Company's Rider 6 provisions, with the appropriate category of recoverable Cost of  
187 Gas Distributed, to arrive at the balance to be refunded or recovered under the two  
188 individual reconciliation balances. In other words, it sets forth the overall reconciliation  
189 calculation, both based on a total of collected revenue as against total actual Cost of Gas  
190 Distributed as well as broken down to the CGC and NCGC levels.

191 **Q. Does the Summary Reconciliation represent that the Company's Rider 6 charges**  
192 **over- or under-recovered the Company's actual Cost of Gas Distributed for the year**  
193 **2003?**

194 A. The calculation represents an over-recovery. In particular, the Company's CGC charge  
195 over-recovered CGC by \$21,529,137, and the NCGC charge over-recovered NCGC by  
196 \$13,643,480. This represents a total amount to be refunded to customers for the year  
197 2003 of \$35,172,617.

198 **Q. Does the Summary Reconciliation also account for any adjustments included in**  
199 **Commission proceedings regarding a prior reconciliation that the Company filed**  
200 **for the year 2002?**

201 A. Yes, the summary also identifies and incorporates adjustments for the year 2002 through  
202 the on-going Docket No. 02-0725, the Company's 2002 PGA Reconciliation, which has  
203 been consolidated with Docket No. 02-0067, the Company's PBR proceeding. The  
204 adjustments are listed on an individual CGC and NCGC basis. The prior year  
205 adjustments for 2002 are a negative \$(6,864,375) and a negative (\$11,929,474)  
206 respectively.

207 **Q. Please explain the basis for the prior year adjustments from Docket No. 02-0067,**  
208 **representing the consolidation of Docket No. 02-0725, the Company's 2002 PGA**  
209 **Reconciliation proceeding.**

210 A. The CGC over-recovery amount of \$6,864,375 and the NCGC over-recovery amount of  
211 \$11,929,474 represent the difference in amount of what the Company estimated to be the  
212 closing of the Company's accounting books in January 2003 as compared to the actual

and audited (Deloitte & Touche) closing of the Company's accounting books in February 2003.

**Q. What is the impact on the reconciliation calculation for the years 2003 when these adjustments are included?**

A. With the prior year adjustments included, the total net balance to be refunded is \$16,378,768. Broken down, this equates to a commodity related balance to be refunded of \$14,664,762, and a non-commodity related balance to be refunded to \$1,714,006.

**Q. Would you please describe the Reconciliation Balance for the CGC in more detail?**

A. Yes. This is a detailed reconciliation that reflects the monthly amounts of recoverable commodity-related gas costs and revenues which were recorded under the Company's CGC pursuant to Rider 6 for the 2003 reconciliation year.

**Q. Has the over-recovered commodity related Reconciliation Balance of \$14,664,762 been reflected in the Company's CGC charges?**

A. Yes. The Company has refunded \$14,664,762. The over-recovered amount has been reflected in the CGC charges effective for the months of January and February 2004. The remaining adjustment of (\$6,864,375), resulting from Docket No. 02-0725, is included in the Company's proposed Factor O for 2002.

**Q. Is the line item identified as "Commodity Related Over/Under Recovery" on the Reconciliation Balance for CGC the same as the line identified as "Under/(Over) Recovery Balance as 12/31/03" on the PGA Reconciliation for CGC?**

A. Yes. The Reconciliation Balance does not include any adjustments for the prior year requested Factor O.

235 **Q. What does the Factor O represent?**

236 A. Factor O represents that additional over or under-recovery for a reconciliation year  
237 ordered by the Commission to be refunded or collected including interest from the end of  
238 the reconciliation year to the Order date in the reconciliation proceeding.

239 **Q. Please describe the Reconciliation Balance for NCGC in more detail.**

240 A. Like the Reconciliation Balance for CGC, this is a detailed reconciliation that reflects the  
241 monthly amounts of recoverable non-commodity related gas costs and revenues which  
242 were recorded under the Company's NCGC and DGC pursuant to Rider 6 for the 2003  
243 reconciliation year.

244 **Q. Has the balance to be refunded of \$1,714,006 been reflected in the Company's DGC**  
245 **and NCGC charges?**

246 A. Yes. The Company has refunded \$1,714,006. The over-recovered amount has been  
247 reflected in the DGC and NCGC charges effective for the months of January and  
248 February 2004. The remaining adjustment of (\$11,929,474), resulting from Docket No.  
249 02-0725, is included in the Company's proposed Factor O for 2002.

250 **Q. Is the line item identified as "Non-Commodity Related Over/Under Recovery" on**  
251 **the Reconciliation Balance for NCGC the same as the line item "Under/(Over)**  
252 **Recovery Balance at 12/31/03" on the PGA Reconciliation of NCGC?**

253 A. Yes. The reconciliation balance does not include any adjustments for the prior year  
254 requested Factor O.

255                   **1.       FERC ORDER NO. 636**

256   **Q.     In the period covered by this reconciliation, were any FERC Order No. 636**  
257           **transition costs billed to Nicor Gas?**

258   A.     Yes. In 2003, total FERC Order No. 636 transition costs resulted in a cost of \$22,626.  
259           This amount was entirely non-commodity related charges collected through the NCGC  
260           and DGC charges.

261   **Q.     Were FERC Order No. 636 transition charges collected exclusively through**  
262           **Rider 6?**

263   A.     Yes. Nicor Gas collected these charges from both sales and transportation customers as  
264           directed by the Commission in Docket No. 93-0328.

265                   **2.       EXPLANATIONS - INDIVIDUAL LINE ITEMS**

266   **Q.     Please explain the revenue item on the Reconciliation Balance for CGC entitled**  
267           **“Excess Storage Charges.”**

268   A.     Pursuant to tariffs approved in Docket No. 95-0219, Nicor Gas’ transportation service  
269           customers are allowed to store certain volumes of customer-owned gas in Nicor Gas’  
270           storage facilities. When a customer’s actual storage balance is in excess of the allowed  
271           storage balance, the excess storage balance volume is subject to an Excess Storage  
272           Charge of \$0.10 per therm. All such Excess Storage Charge revenue billed to customers  
273           is refunded through the Commodity Related Reconciliation Balance, in compliance with  
274           the Commission’s Orders in Docket No. 95-0219.

275   **Q.     Please explain the revenue item on the Reconciliation Balance for CGC entitled**  
276           **“Storage Services.”**

277 A. Pursuant to the Commission's Order in Docket No. 95-0219, Nicor Gas includes revenue  
278 received from the sale of storage services to off-system customers as a credit to Rider 6  
279 through the commodity-related Reconciliation Balance. The item entitled "Storage  
280 Services" contains the revenue credits, which are equal to revenues billed for off-system  
281 storage services in 2003.

282 **Q. Please explain the revenue item shown on the Reconciliation Balance for CGC**  
283 **"Rider 5 Revenues."**

284 A. Rider 5, Storage Service Cost Recovery, was also approved by the Commission in  
285 Docket No. 95-0219. Rider 5 ensures recovery of the Company's storage related  
286 investments, following elections made by transportation customers. The cost of storage  
287 investment not elected by transportation customers is recovered from sales customers  
288 through Rider 5, which is added to and included as part of the monthly CGC charge for  
289 billing purposes. The adjustment reflected for Rider 5 eliminates this revenue from the  
290 Reconciliation Balance, since it is unrelated to gas costs incurred.

291 **Q. Please explain the revenue item shown on the Reconciliation Balance for NCGC**  
292 **entitled "Aggregator Balance Service Charge."**

293 A. In 1998, pursuant to Rider 15, the Company began a customer choice pilot program  
294 called Customer Select. Under the provisions of the pilot program, customers are able to  
295 choose gas suppliers other than Nicor Gas. The program allows participating suppliers to  
296 aggregate deliveries made on behalf of participating customers, in compliance with Rider  
297 16, Supplier Aggregation Service. The Aggregator Balance Service Charge ("ABSC") is  
298 a non-commodity related charge applied on a per therm basis to all deliveries made by  
299 the Company to the facilities of customers participating in the pilot program. Under

Rider 16, suppliers are responsible for providing 28% of the group's maximum daily usage. The ABSC, which is billed to the suppliers, represents the recovery of non-commodity costs for the remaining portion of the group's maximum daily use provided by the Company.

**Q. The Reconciliation Balances for both CGC and NCGC contain line items entitled “Amortization of Refunds” and “Amortization of Previous Years RB.” What do these line items represent?**

A. Pursuant to the Commission's Order in Docket No. 94-0403, 83 Ill. Adm. Code 525.50(b) allows the Company to amortize an Adjustment Factor (“Factor A”) over a period longer than the Base Period, as defined in 83 Ill. Adm. Code 525.20, but not to exceed twelve (12) months. These line items represent the amortization of pipeline and storage refunds, and of prior over- or under- collected gas costs. Prior to the Commission's Order, amortization expense was reflected outside the calculation of the Reconciliation Balance.

**Q. Please explain the revenue item entitled “Interest on Refunds,” as shown on the Reconciliation Balance for CGC.**

A. Interest is calculated on the unamortized balances related to the amortization expenses described above. Per 83 Ill. Adm. Code 525.50(b), the Company computes the associated carrying charge on unamortized refunds and over/under collections, in effect at the time the amortization is initiated, based on the rate established under 83 Ill. Adm. Code 280.70(e)(1). Interest is included, through Factor A, with the CGC, NCGC and DGC charges, as applicable.



**IV. OVERSIGHT**

**Q. What type of review is performed in conjunction with the Company's Annual Reconciliation Filing with the Commission?**

A. The Annual Reconciliation Filing is reviewed by Deloitte Touche LLP, the Company's independent public accountants. Their report is included as part of the Company's filing pursuant to Rider 6, GSC. The reconciliation itself is prepared by Nicor Gas employees from several departments.

**Q. What type of review procedure is in place for the monthly GSC filings?**

A. The Rate, Supply, Supply Accounting and Forecasting Departments contribute to preparation of the monthly filings. The departments are familiar with the terms and provisions of Rider 6, and understand which costs are recoverable through the GSC. The Rate Department prepares the final document filed with the Commission. Forecasting, Supply and Supply Accounting are involved in preparation of the documents used to support the filing.

**Q. How do these departments provide a check on the accuracy of the monthly filings?**

A. These departments must be in agreement with the treatment of costs in the monthly GSC filing.

**Q. What other review is performed with regard to monthly filings?**

A. The Company's Internal Auditing Department, on an annual basis, reviews a monthly filing, source documents and a copy of Rider 6 as in effect at the time of the filing. This review is designed to ensure that only appropriate costs were included in the filing,

thereby providing a further check on the inter-departmental review that I have previously described.

**V. CONCLUSION**

**Q. What is the Company requesting?**

A. The Company is requesting that the Commission approve the establishment of Nicor Gas' GSC charges at levels established in the Company's 2003 PGA Reconciliation. In addition, in 2003, the Company's Rider 6, GSC charges over-collected the Company's actual Commodity Gas Cost in the amount of \$14,664,762 and over-collected the Company's Non-Commodity Gas Costs in the amount of \$1,714,006, for a total of \$16,378,768. The Company is requesting that the Commission approve the Company's refund of these amounts through Rider 6, GSC charges.

**Q. Does this conclude your direct testimony?**

A. Yes.